



Item Number: 2



# CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

**DATE:** August 13, 2024

**TO:** Mark Washington, City Manager

**COMMITTEE:** Fiscal Committee

**LIAISON:** Molly Clarin, Chief Financial Officer

**FROM:** Levi Boldt, Investment Officer  
City Treasurer's Office

**SUBJECT:** **Treasurer's Report for Period of July 17, 2024 through July 31, 2024**

On July 31, the Federal Reserve's Open Market Committee (FOMC) announced that it will hold short-term rates at the current 5.25% - 5.50% level. Markets have priced in a 95.9% likelihood that FOMC will maintain short-term interest rates at their current range of 5.25% – 5.50% at its next meeting July 30-31. Market pricing also indicates a 71.5% likelihood that FOMC will reduce rates 0.25% and a 28.5% likelihood of a 0.50% cut, at its September 17-18 meeting.

As interest rates fall, the market price of outstanding fixed-yield bonds and other debt obligations rises. The opposite also holds true; market prices drop when interest rates increase. The magnitude of the market price change is roughly proportional to time to maturity. Gains or losses in market value are only realized when portfolio securities are sold prior to maturity. Unrealized gains or losses have no impact on portfolio cash flow or interest earnings.

Governmental accounting standards require the Treasurer's Office to mark the portfolio to current market prices on the City's financial statements. It is important to understand that unrealized gains and losses exist "on paper" only. Sufficient liquidity is available to fund expected current expenditures without selling portfolio holdings prior to maturity.

The Treasurer's Office manages the City's investment portfolio with the goals of safety of principal, sufficient liquidity to meet expected liabilities, and obtaining a competitive yield on invested monies. By selecting portfolio holdings with positive cash flows during periods of expected drawdown, the Treasurer's Office maximizes invested capital while minimizing the likelihood that of a liquidity demand in excess of readily available resources, which could result in a loss of principal. This also allows some flexibility to take advantage of market themes and opportunities as they present themselves. Communication among City staff, especially as to the timing of major expenditures, is

critical to the success of this approach.

The City Treasurer's Office collects property taxes not only for the City's own use, but also for other taxing authorities such as Kent County, Grand Rapids Community College, and the various public school systems within the City's borders. This amount can be significant, growing from nothing to over \$100 million in a short time. In an effort to minimize risk to the City while we are in possession of these monies, the Treasurer's Office purchases US Treasury securities with it. The Treasury securities selected are those due to mature coincident with the City's distribution of those monies to whom they are due. US Treasury securities are guaranteed by the full faith and credit of the United States, and are therefore considered the safest, most secure, and most liquid of all possible investment options on the planet. Per legal requirements, interest earned is passed along to those authorities.

The FY2025 fiscal plan calls for the drawdown of fund balances and/or retained earnings to pay for a portion of large capital projects. This has resulted in investment purchases of mostly short-term assets. Due to an inverted yield curve (when short-term interest rates are higher than long-term rates), these purchases have temporarily boosted portfolio yield. However, we are mindful of the need to sustain yields even as overall rates decline. Our focus on short-term investments comes at the expense of sustained yields over longer periods of time.

Portfolio segments and investment returns are listed in the following table.

Portfolio Segment	Market Value	Purchase Yield
Pooled Funds	\$749,942,636	3.37%
Cemetery Perpetual Care	\$5,166,556	4.47%
Bond Proceeds:		
CIB 2023 – Lyon Square	\$4,646,728	5.48%
CIB 2024 – Amphitheater	\$20,413,689	5.33%
CIB 2024 – Scribner	\$59,762,108	5.28%
<b>Total:</b>	<u>\$839,931,718</u>	3.62%

The attached appendices detail portfolio holdings and recent trading activity. Please contact me at ext. 3285 with any questions on this report. Thank you.

**CORRECT IN FORM**  
  
 CITY ATTORNEY